

# **The Foreclosure Prevention Act of 2008**

April 2, 2008

The Foreclosure bill being considered by the Senate contains the following provisions designed to address the problems faced by families and their communities in light of the foreclosure crisis:

- **FHA Modernization.** To ensure that additional families can access the FHA program, which provides safe, fixed-rate mortgages, significant FHA reform is included to modernize, streamline and expand the reach of the FHA program. Under this bill, the FHA loan limit is increased from 95% to 110% of area median home price with a cap at 132% of GSE limit (currently, \$550,000), allowing families in all areas of the country to access homeownership through FHA. Downpayments of 3.5% will be required for any FHA loan and counseling requirements are enhanced to help provide for stable homeownership.
- **Assisting Communities Devastated by Foreclosures.** Homes that have been foreclosed upon and are sitting unoccupied lead to declines in neighboring house values, increased crime and significant disinvestment. To ensure that communities can mitigate these harmful effects of foreclosures, \$4 billion is provided to communities hardest hit by foreclosures and delinquencies. These supplemental Community Development Block Grant Funds will be used to purchase foreclosed homes, at a discount, and rehabilitate or redevelop the homes to stabilize neighborhoods and stem the significant losses in house values of neighboring homes.
- **Providing Pre-Foreclosure Counseling for Families in Need.** To help families avoid foreclosure, this bill provides \$100 million in additional funding for housing counseling. These funds will be distributed by the Neighborhood Reinvestment Corporation by the end of 2008 to ensure families can quickly get the help they need. As many as 250,000 additional families connect with their mortgage servicer or lender to explore options that will keep them in their homes as a result of these counseling funds.
- **Enhancing Mortgage Disclosure.** To ensure that consumers are provided with timely and meaningful disclosures in connection with mortgages, the bill expands the types of home loans subject to early disclosures (within three days of application) under the Truth In Lending Act (TILA) including refinancings. The bill requires that disclosures be provided no later than 7 days prior to closing so borrowers can shop for another loan if not satisfied with the terms. The bill requires a new disclosure that informs borrowers of the maximum monthly payments possible under their loan, and also increases the range of statutory damages for TILA violations from the current \$200 to \$2000 to \$400 to \$4000.

- **Preserving the American Dream for Our Nation's Veterans.** To assist returning soldiers avoid foreclosure, this bill lengthens the time a lender must wait before starting foreclosure from three months to nine months after a soldier returns from service and also provides returning soldiers with one year relief from increases in mortgage interest rates. In addition, the Department of Defense is required to establish a counseling program to ensure veterans and active service members can access assistance if facing financial difficulties. Also included is a provision that increases the VA loan guarantee amount, so that veterans have additional homeownership opportunities.
- **Standard Property Tax Deduction.** To make tax relief available to all American homeowners, the bill will provide a standard deduction – \$500 for single filers and \$1,000 for joint filers – for the 28.3 million non-itemizers who pay property taxes. Present law allows only those who itemize deductions on their Federal tax returns to deduct state and local property taxes from their income.
- **Mortgage Revenue Bonds.** To provide for refinancing of subprime loans, mortgages for first-time homebuyers and multifamily rental housing, \$10 billion of Federal tax-exempt private activity bond authority is included in this bill. The measure also exempts interest earned on the bonds from the alternative minimum tax.
- **Extension of Net Operating Loss Carryback.** To aid homebuilders and other businesses hit hardest by the economic slump, this bill will extend a law allowing corporations to apply excess net operating losses to tax returns from prior profitable years and receive any applicable refunds. For 2008 and 2009 losses, the provision would extend the “net operating loss (NOL) carryback” to four years (back to 2004 and 2005, respectively) from the two years currently in law. Measures to prevent companies from abusing the intent of the provision are also included.
- **Tax Credit for Purchase of Homes in Foreclosure.** To encourage the purchase of homes already in foreclosure and of homes on which foreclosure has been filed, this bill creates a \$7,000 tax credit for buyers of such homes, to be claimed over two years. Homes in foreclosure bring down the value of property nearby. Encouraging the purchase of more homes in foreclosure will restore property values for all homeowners.